

# 2011 Appraisal Institute Year in Review Industrial Sector

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# Headlines

## **Milwaukee-area industrial sales on the rise**

**Premium content from The Business Journal by Pete Millard**

Date: Sunday, September 10, 2006, 11:00pm CDT

**Related:**

[Commercial Real Estate](#)

Pete Millard

The industrial real estate market in southeast Wisconsin is booming in 2006.

## **Oshkosh sees profit drop on work shift**

**The Business Journal**

Date: Thursday, April 28, 2011, 9:04am CDT

## **Oshkosh awarded \$252 million in heavy vehicle orders**

**The Business Journal**

Date: Thursday, June 9, 2011, 12:35pm CDT



# Generac to add over 400 jobs at Wisconsin plants

JSONline

Date: Monday, November 7, 2011

## Marinette Marine starts expansion

The Business Journal

Date: Monday, March 15, 2010, 11:19am CDT

## Report: Wisconsin lost 9,700 jobs last month

Associated Press

### MADISON

Wisconsin lost nearly 10,000 jobs over the last month, according to data the state Department of Workforce Development released Thursday.

The state lost 9,700 jobs from September to October, according to the report. The vast majority of the losses—9,300 positions—came out of the private sector. The manufacturing sector lost 3,400 jobs, the health care sector lost 1,700 jobs and the retail trade sector lost 1,900 jobs. The construction sector lost 2,200 jobs.

The public sector, including

federal, state and local governments, lost 400 jobs. Local governments reportedly lost 1,900 positions, the federal government in the state lost 300 jobs and state government added 1,800 jobs.

Gov. Scott Walker has promised to create 250,000 jobs during his four-year term. DWD Secretary Reggie Newson, a member of Walker's cabinet, issued a statement blaming the job losses on national and global economic trends.

Dennis Winters, the agency's chief labor economist, said the state is feeling the effects of Europe's economic problems, which have resulted in a reduced demand for U.S. and Wisconsin exports.

## Job growth still weak

Despite other positive economic signs

Associated Press

### WASHINGTON

Factories are producing more. Construction is growing. People are buying more cars. The holiday shopping season is off to a strong start.

Normally, all that would suggest a bright outlook for the economy. Problem is, employers still aren't hiring much, the number of people seeking unemployment benefits remains high and Europe's debt crisis poses a grave threat to the future.

Thursday's mixed economic picture came a day before the government will report on unemployment and job growth for November. That report is expected to show a modest net gain of 125,000 jobs, scarcely enough to keep up with population growth. The unemployment rate is projected to remain 9 percent.

Analysts say the economy remains locked in a good-but-hardly-good-enough position: It's growing consistently, yet too weakly to induce employers to hire aggressively.

"The economy is picking up momentum as we close out 2011," said Neil Dutta, an economist at Bank of America Merrill Lynch. At the same time, it faces "an ongoing flu in Europe" and other challenges, such as uncertainty about future taxes and spending in the United States, Dutta said.

For now, factories are expanding. The Institute for Supply Management, a trade group of purchasing managers, says its manufacturing index rose to 52.7 in November, up from 50.8 in October. Any reading above 50 indicates expansion. Factories have grown for 28 straight months.

Manufacturers are slightly more hopeful about the next few months because of cheaper raw materials and healthy demand, said Bradley Holcomb, head of the ISM's survey committee.





- \* State

- \* 3 regions

- \* South Central:

- \* Dane, Rock, Jefferson, Walworth Counties

- \* Southeastern:

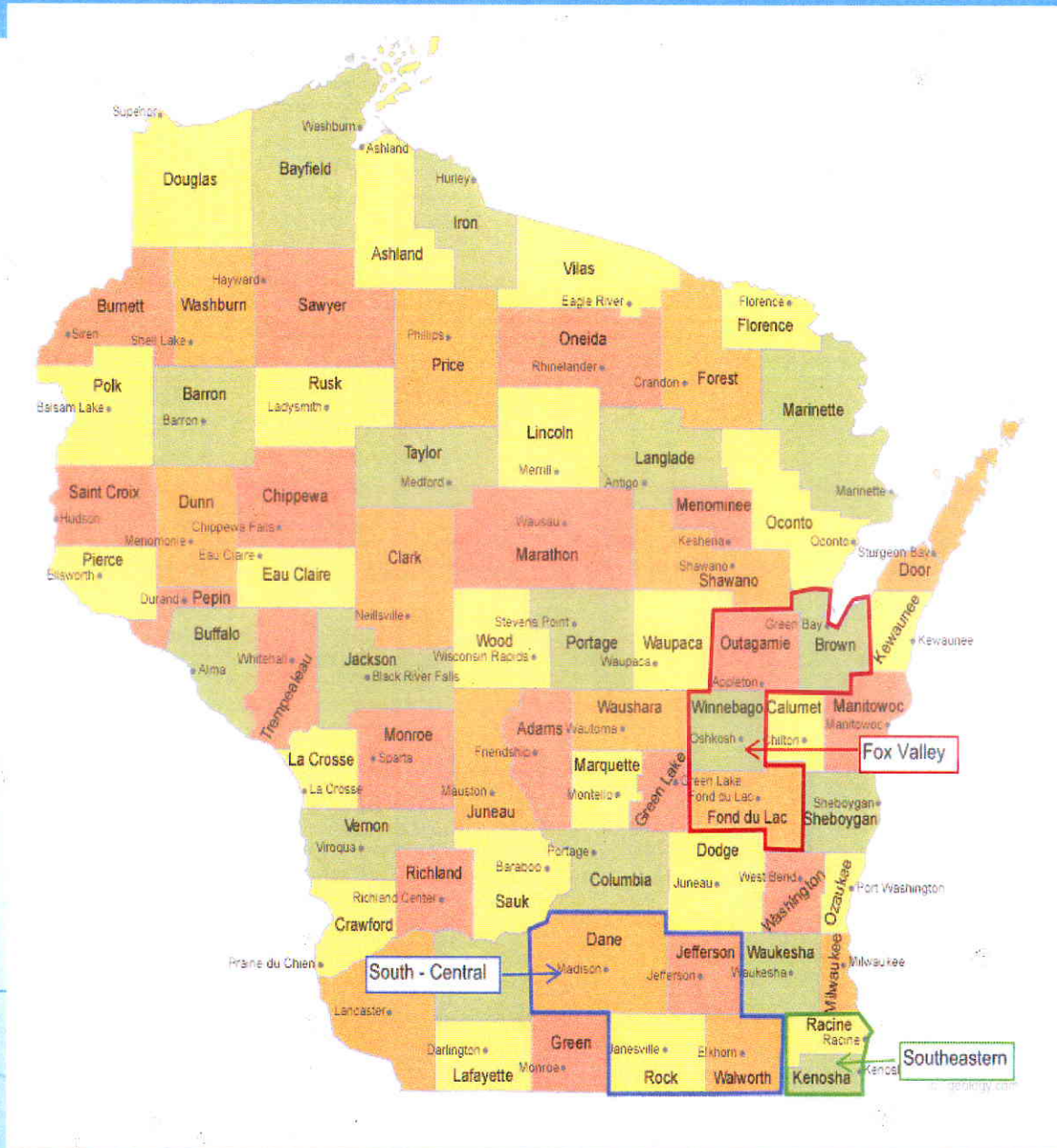
- \* Racine, Kenosha Counties

- \* Fox Valley:

- \* Green Bay to Fond du Lac

- \* United States





South - Central

Fox Valley

Southeastern



# Current Vacancy Levels

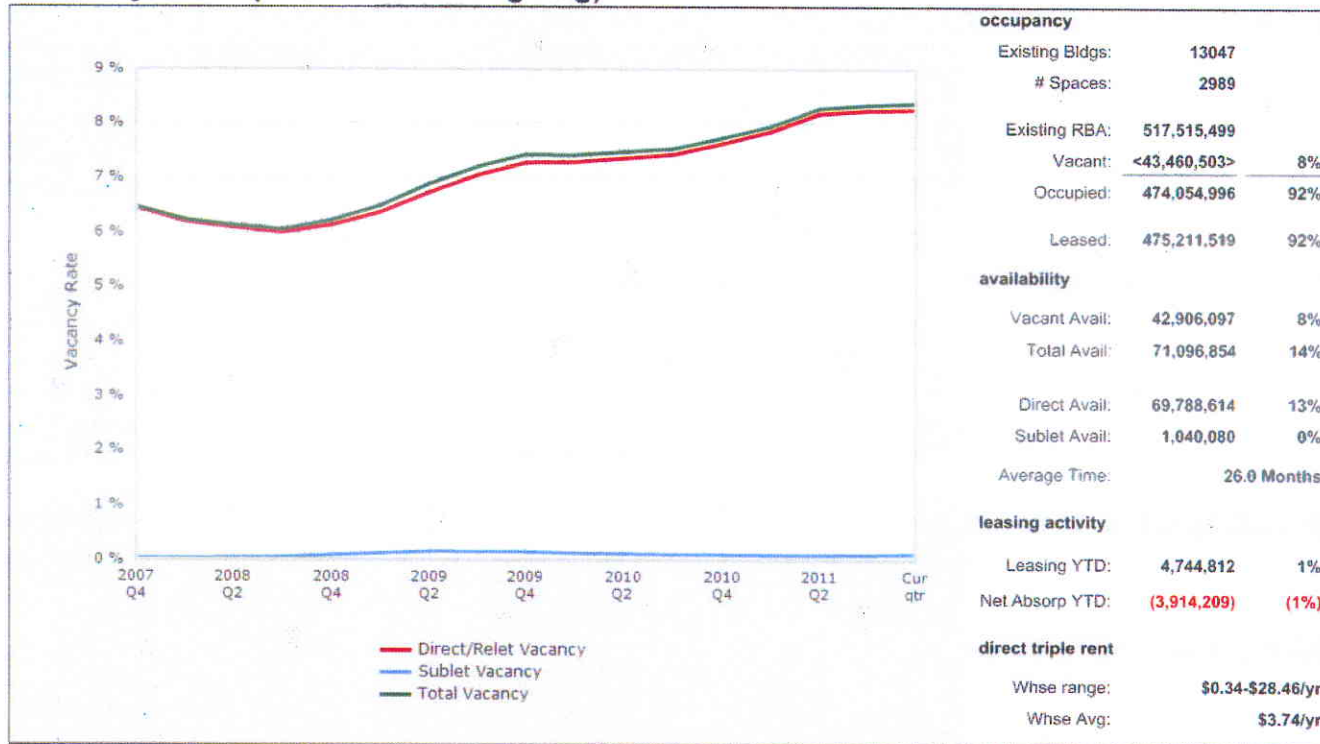
- \* Statewide appears to be about 8.25%
- \* Highest in SE Wisconsin
- \* Trending downward
- \* Good space tightening up
- \* Net absorption in some markets in Q3
- \* No new major space coming into market
- \* Speculation space minimal
- \* Most demand 70-200,000 square feet



# State

## State of Wisconsin

### Vacancy Rates (3-Quarter Trailing Avg)



#### occupancy

Existing Bldgs:	13047	
# Spaces:	2989	
Existing RBA:	517,515,499	
Vacant:	<43,460,503>	8%
Occupied:	474,054,996	92%
Leased:	475,211,519	92%

#### availability

Vacant Avail:	42,906,097	8%
Total Avail:	71,096,854	14%
Direct Avail:	69,788,614	13%
Sublet Avail:	1,040,080	0%
Average Time:	26.0 Months	

#### leasing activity

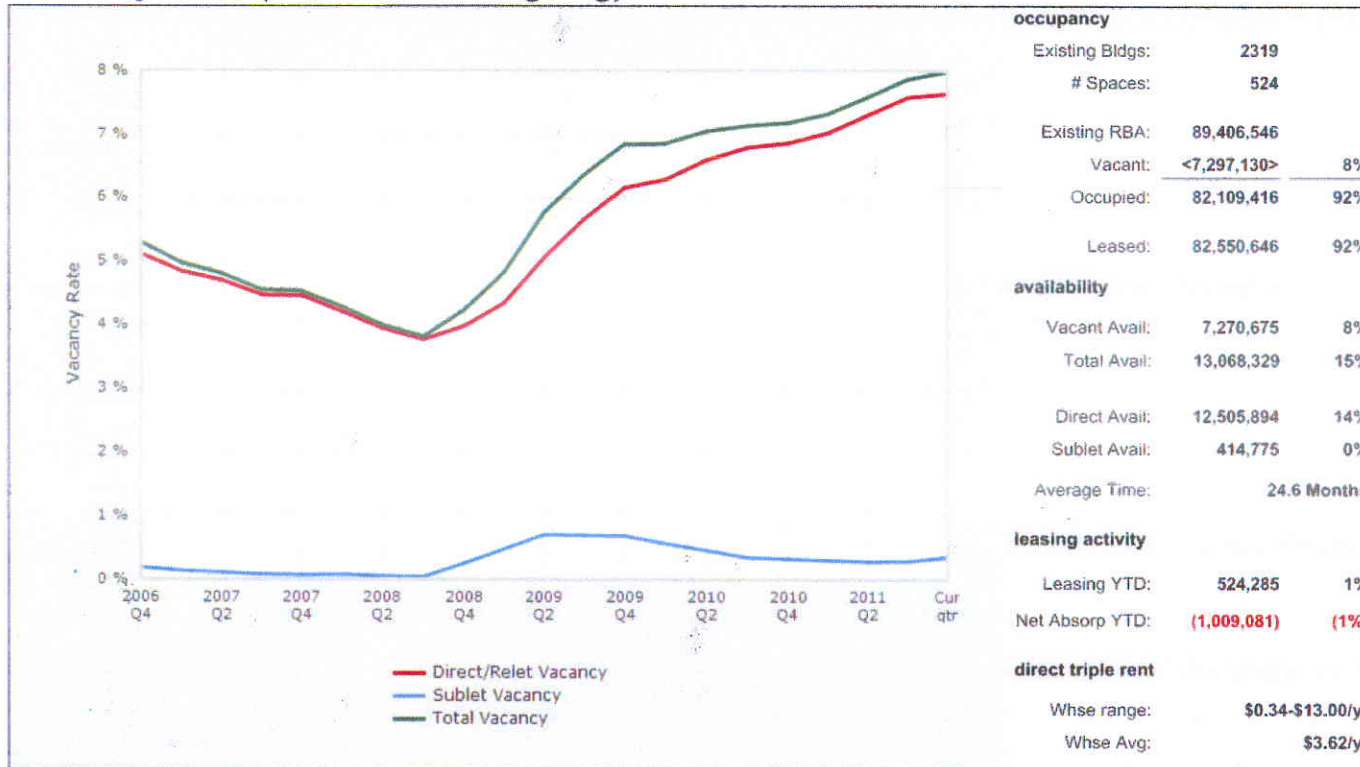
Leasing YTD:	4,744,812	1%
Net Absorp YTD:	(3,914,209)	(1%)

#### direct triple rent

Whse range:	\$0.34-\$28.46/yr
Whse Avg:	\$3.74/yr

# South Central

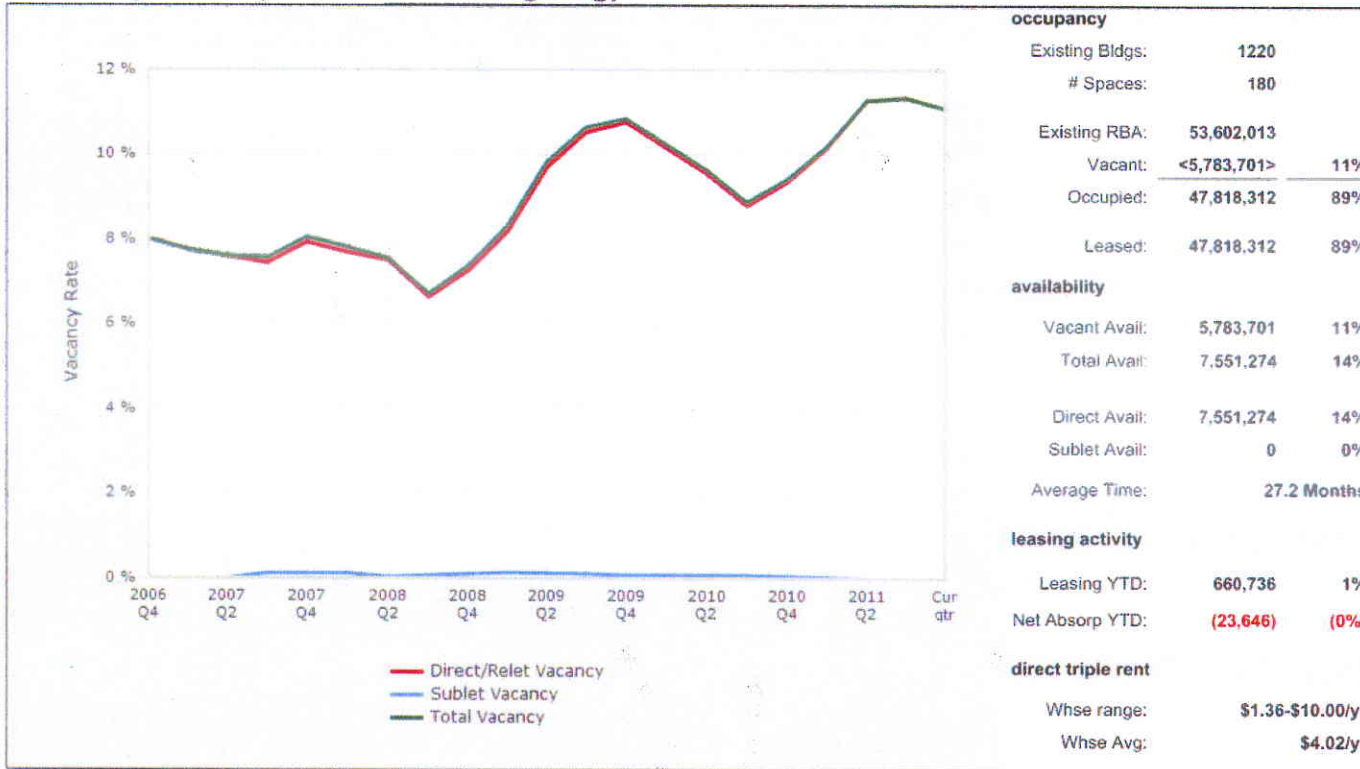
## South-Central Vacancy Rates (3-Quarter Trailing Avg)





# Southeastern

Southeastern  
Vacancy Rates (3-Quarter Trailing Avg)



### occupancy

Existing Bldgs:	1220
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Existing RBA:	53,602,013
Vacant:	<5,783,701> 11%
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### availability

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### leasing activity

Leasing YTD:	660,736 1%
Net Absorp YTD:	(23,646) (0%)

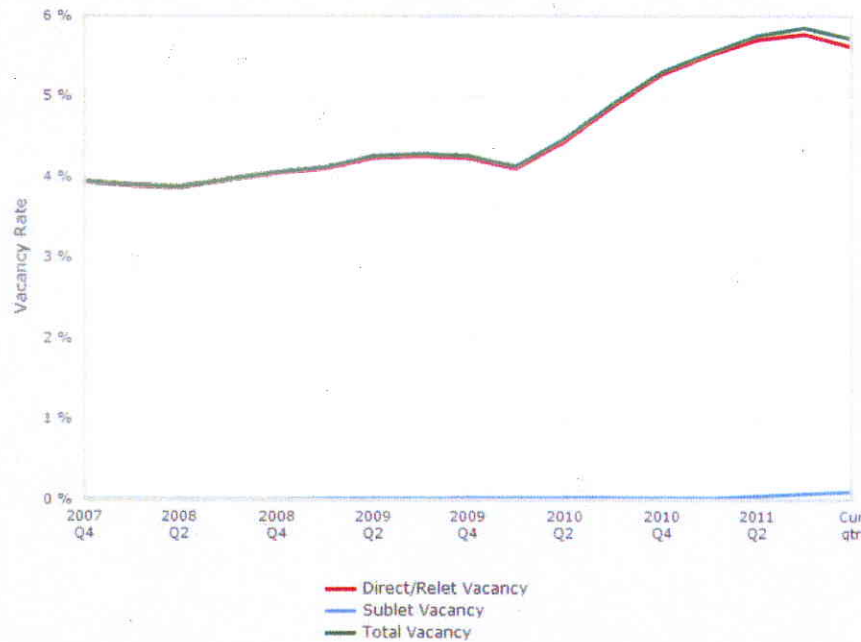
### direct triple rent

Whse range:	\$1.36-\$10.00/yr
Whse Avg:	\$4.02/yr



# Fox Valley

## Fox Valley Vacancy Rates (3-Quarter Trailing Avg)



### occupancy

Existing Bldgs:	1833
# Spaces:	442
Existing RBA:	72,348,978
Vacant:	<3,981,113> 6%
Occupied:	68,367,865 94%
Leased:	68,498,783 95%

### availability

Vacant Avail:	3,922,195 5%
Total Avail:	7,856,419 11%
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Average Time:	22.4 Months

### leasing activity

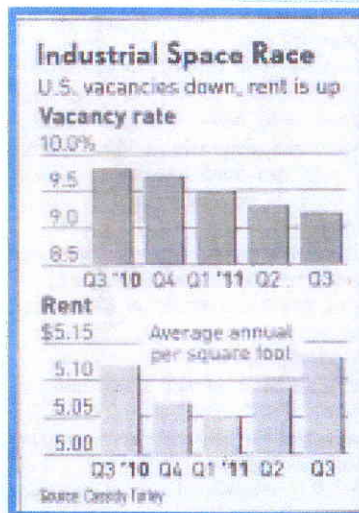
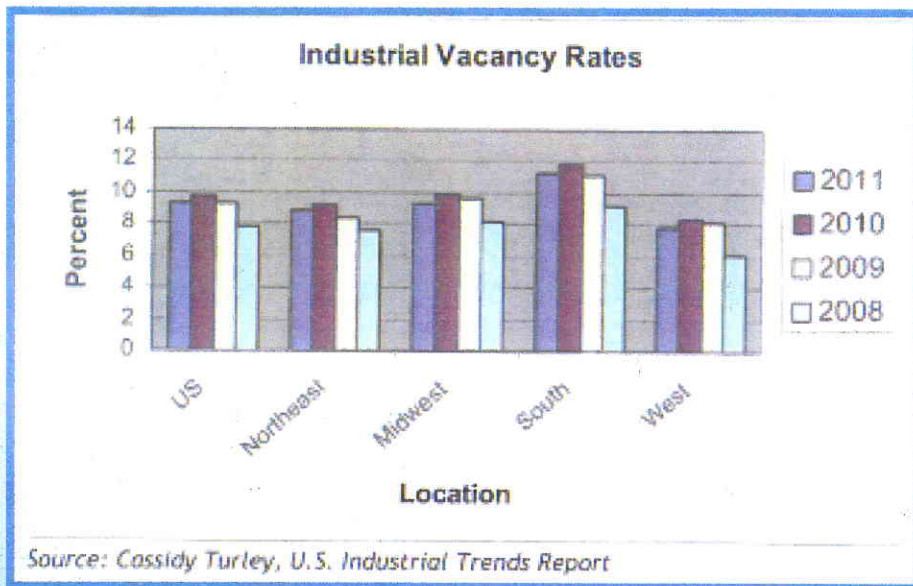
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Net Absorp YTD:	(183,081) (0%)

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# United States





# Current Rental Rates

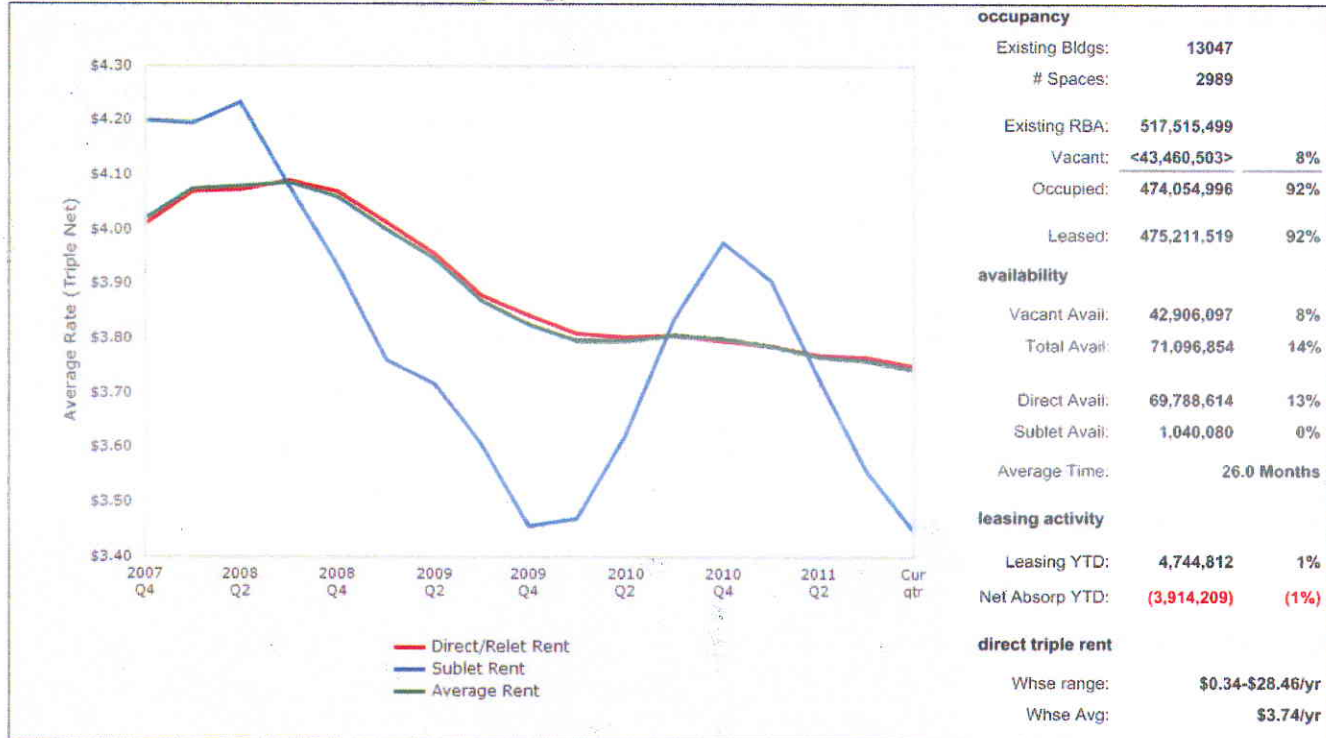
- \* Have been trending downward
- \* Appear to be stabilizing
- \* Most markets still have concessions
- \* Most terms are 5 years or more
- \* Few escalators



# State

## State of Wisconsin

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# South Central

## South-Central

### Rental Rates



#### occupancy

Existing Bldgs:	2319
# Spaces:	524
Existing RBA:	89,406,546
Vacant:	<7,297,130> 8%
Occupied:	82,109,416 92%
Leased:	82,550,646 92%

#### availability

Vacant Avail:	7,270,675 8%
Total Avail:	13,068,329 15%
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Sublet Avail:	414,775 0%
Average Time:	24.6 Months

#### leasing activity

Leasing YTD:	524,285 1%
Net Absorp YTD:	(1,009,081) (1%)

#### direct triple rent

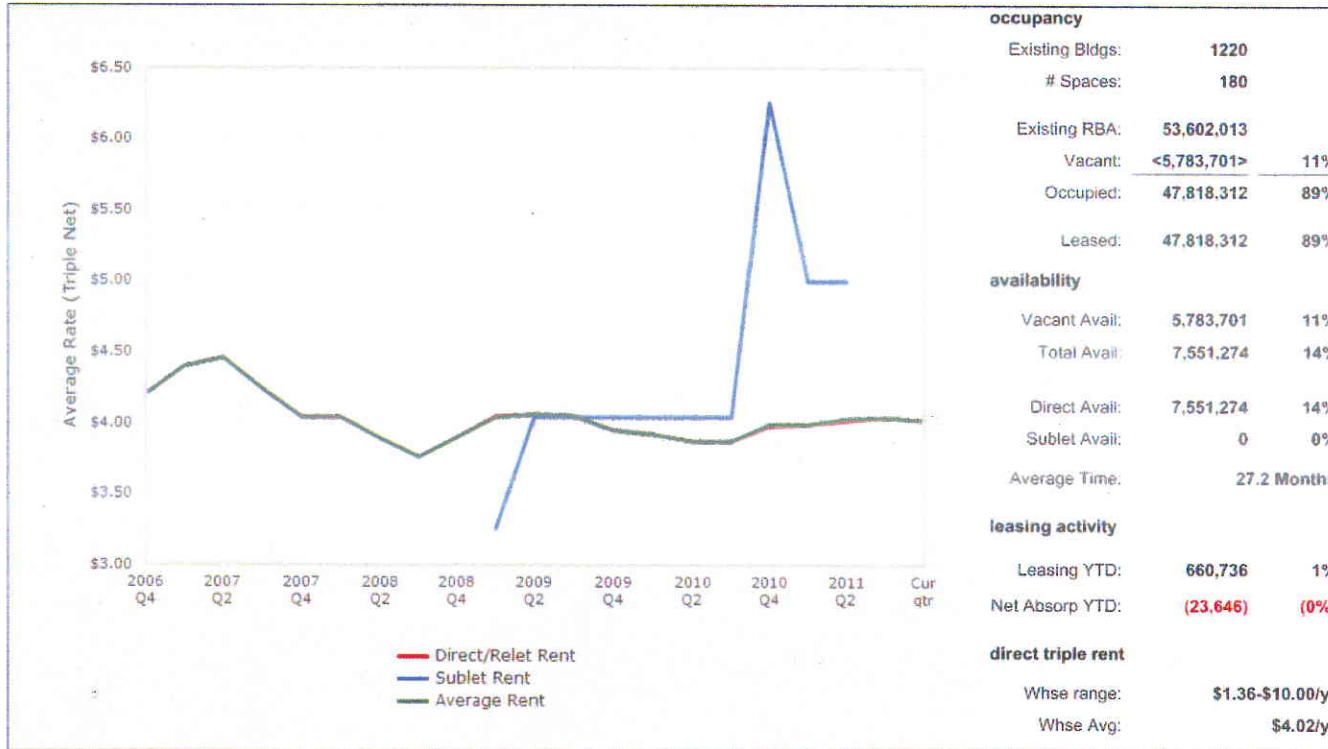
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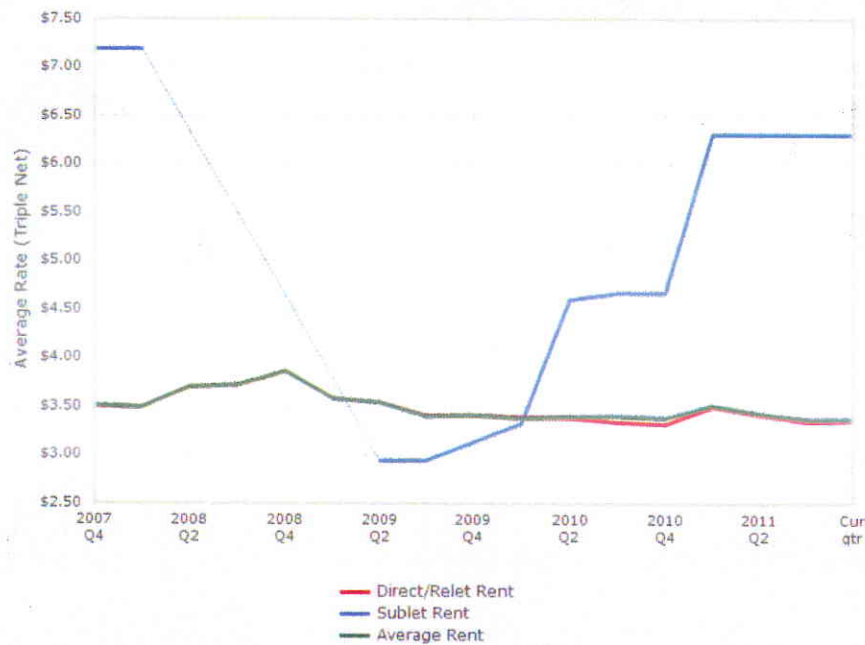
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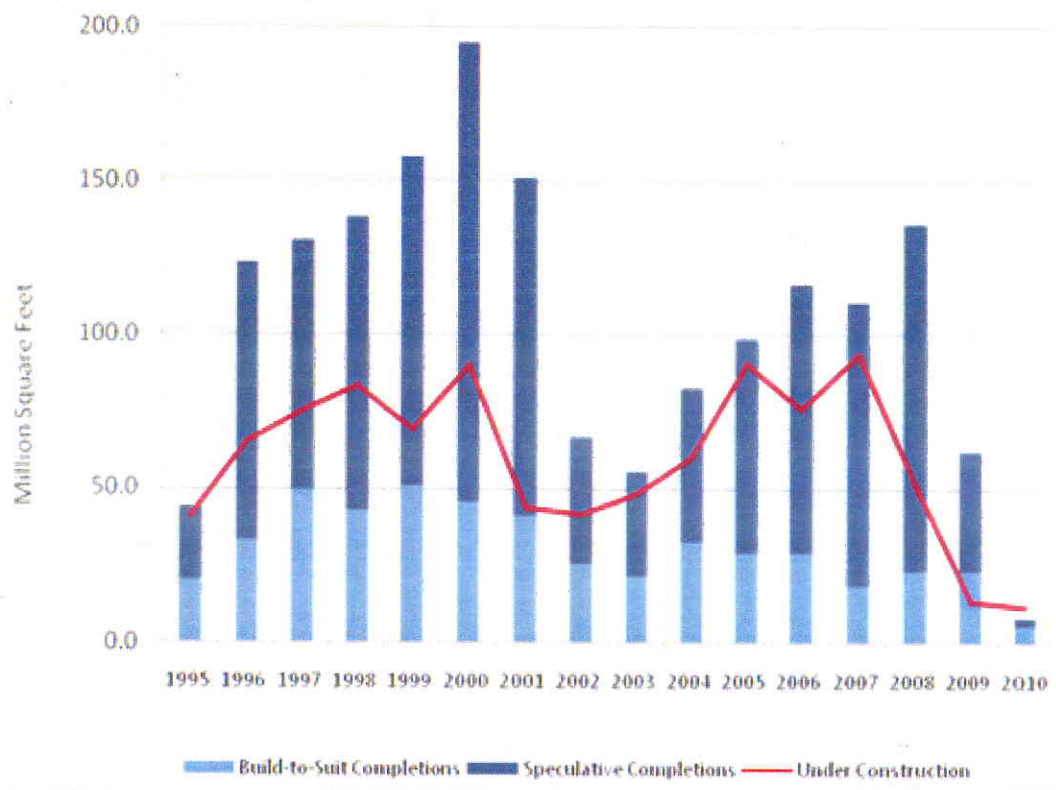
# New Construction (U.S. vs. WI)

- \* United States

- \* New construction is good benchmark of **sector's** strength
- \* 16.7 million square feet in 2010, down from 62 million in 2009 and 136 million in 2008
- \* No data yet for 2011 but likely less than 2010
- \* Peak was about 200 million square feet in 2000



### Industrial Construction Activity

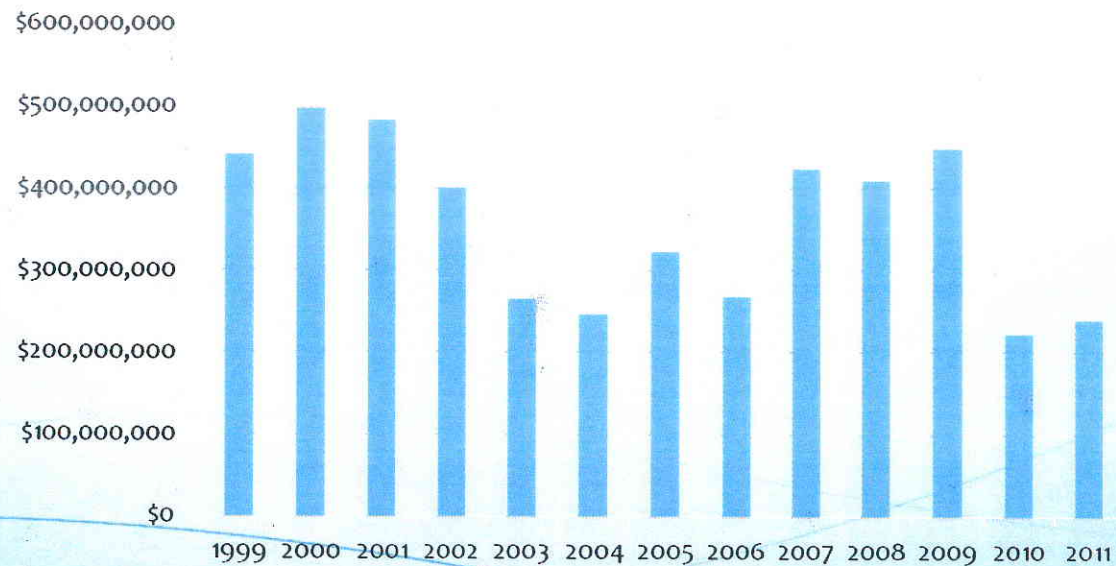


Source: Cushman & Wakefield

\* Wisconsin

- \* No data available for total SF of space but \$225,000,000 in new equalized value, up slightly from 2010

### New Construction - Wisconsin



Source: <https://ww2.revenue.wi.gov/EqValue2/application>

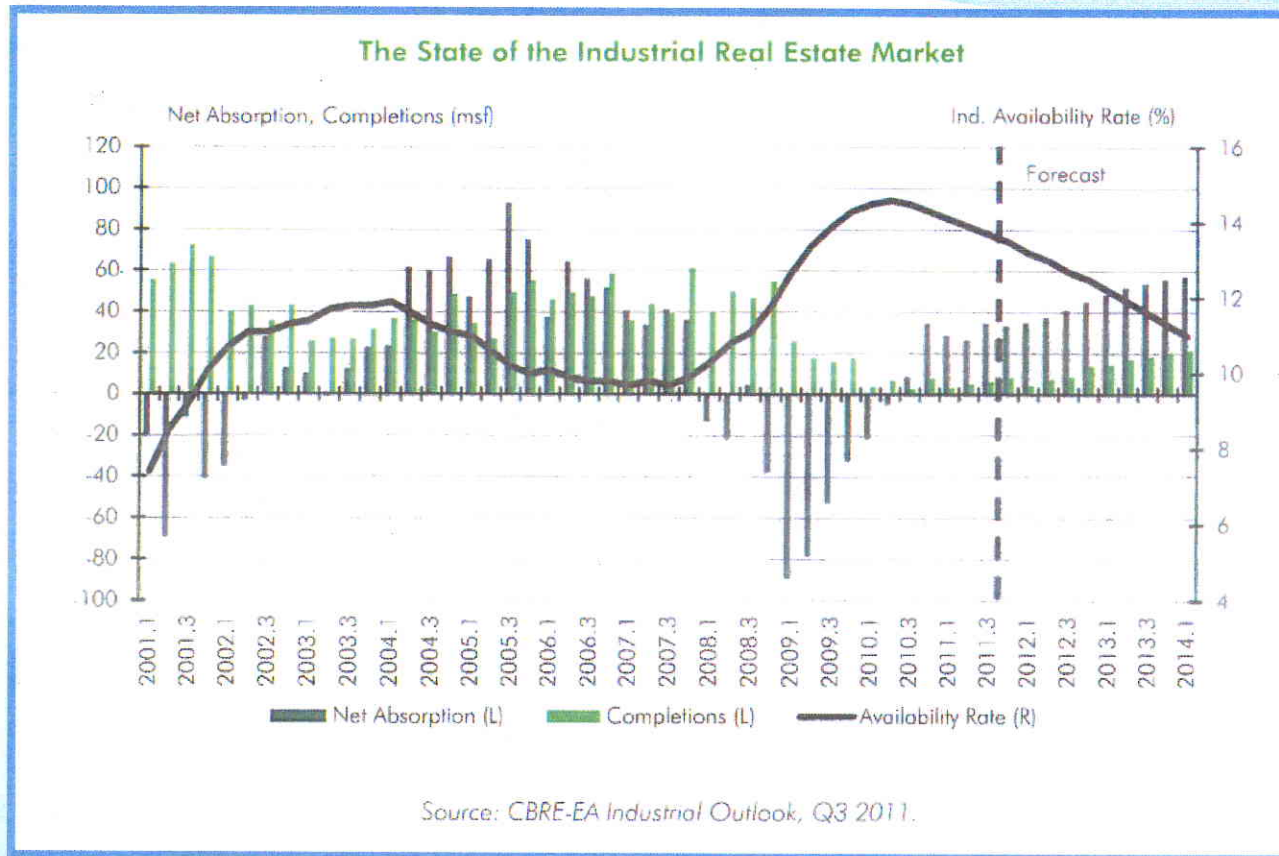


# Absorption of Space into Market

- \* **United States**

- \* Availability index fell 20 basis points to 13.7% in Q3. This refers to the space actively marketed and available for tenant buildout within 12 months. Trending downward.

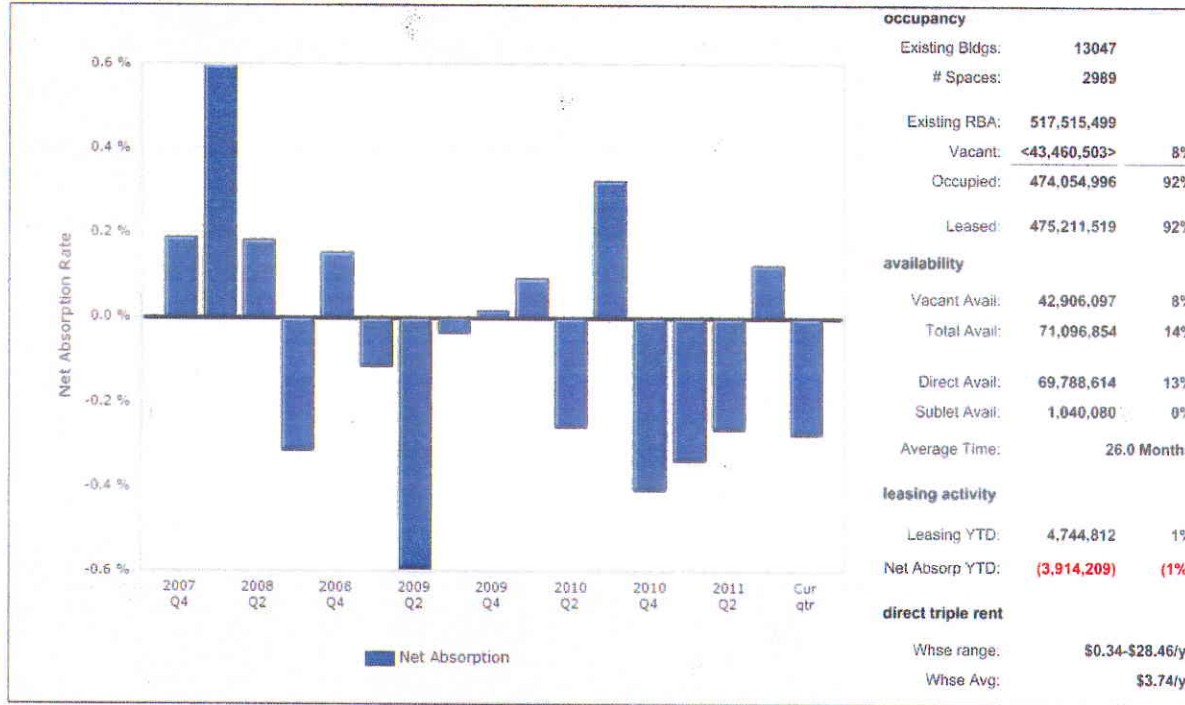
# United States





## State of Wisconsin

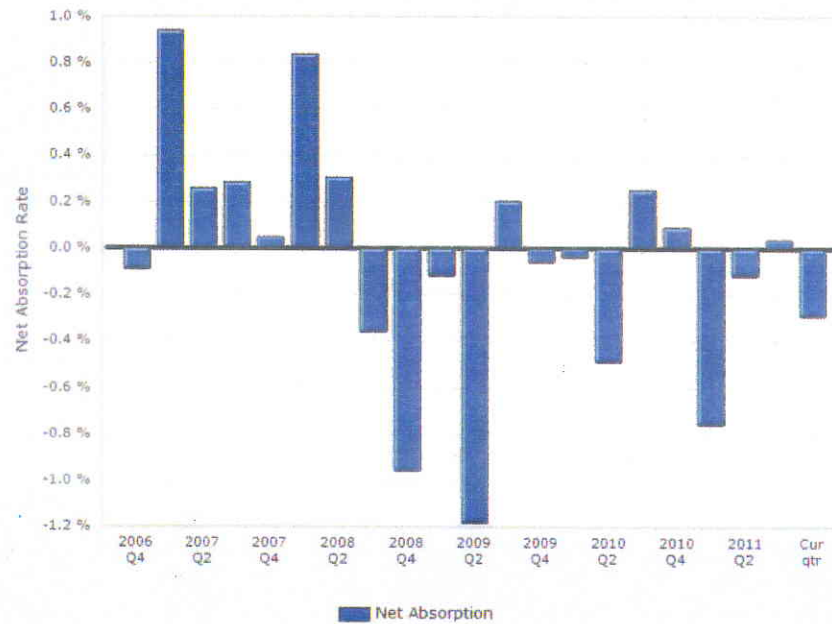
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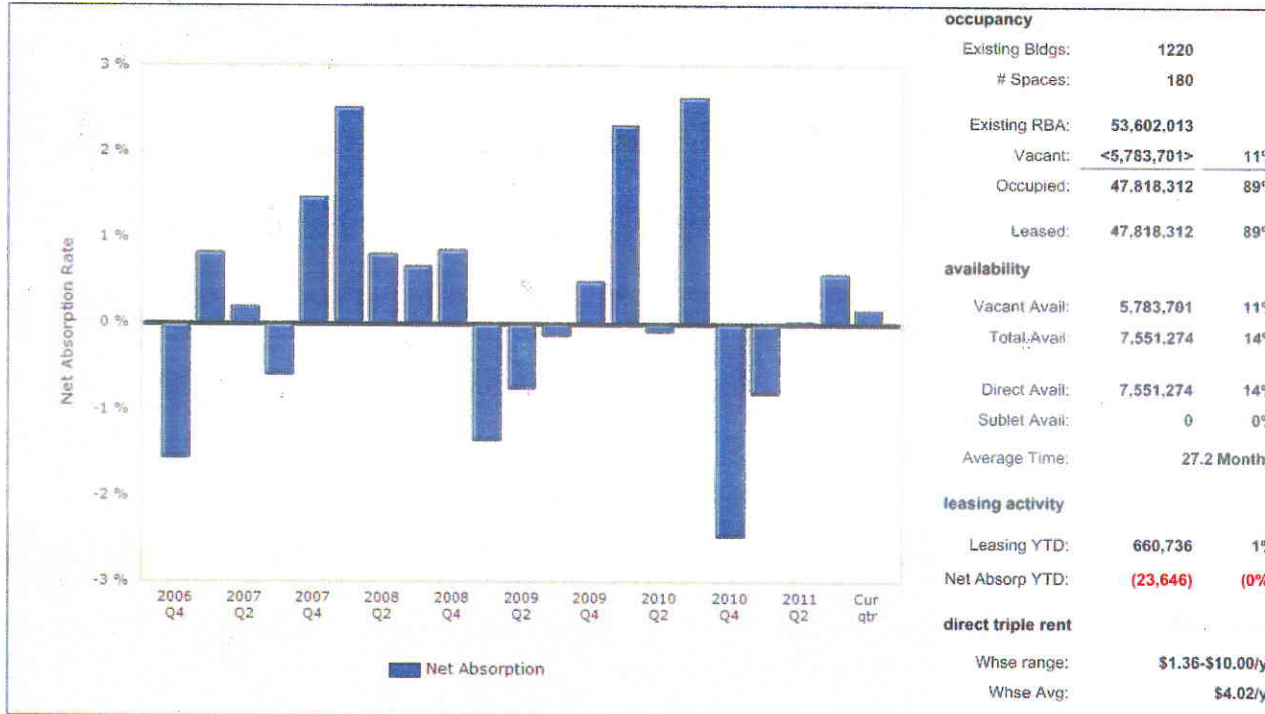
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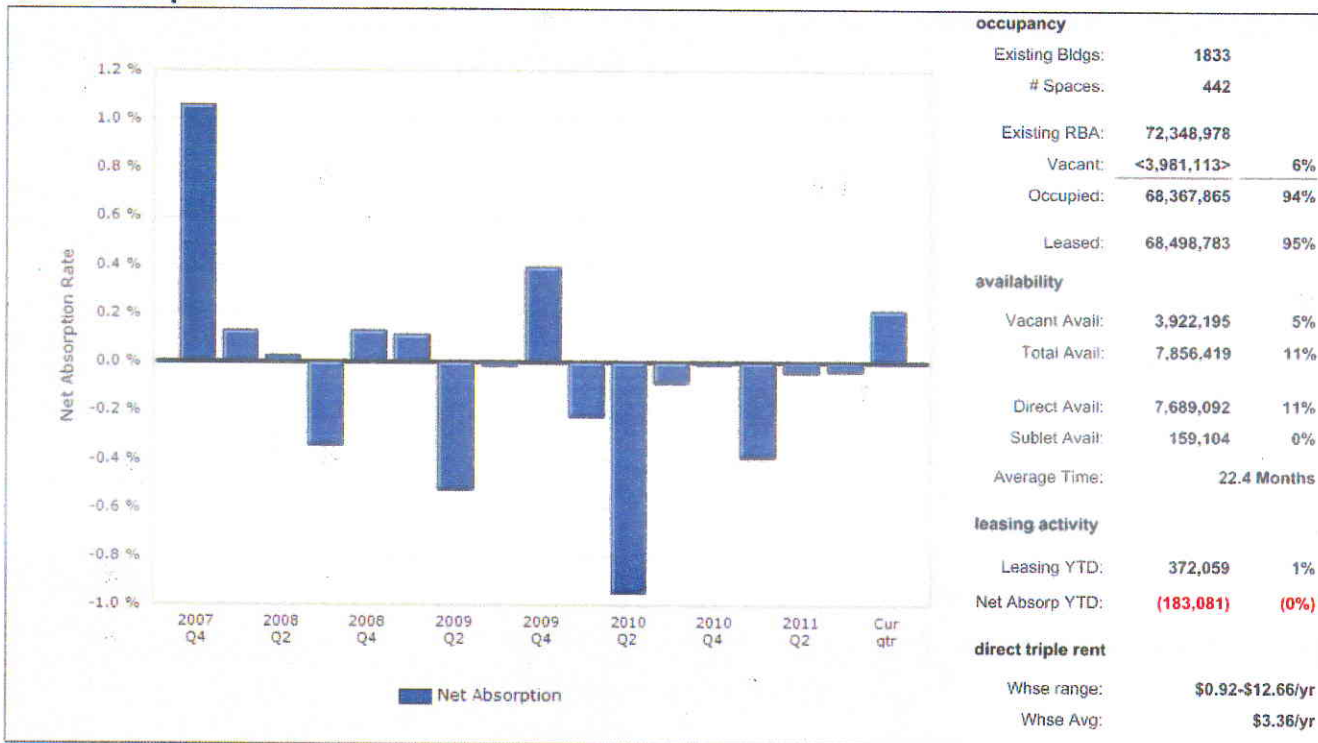
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# Industrial Cap. Rates

- \* **Cap. Rates vary, case by case**
- \* **Lowest are near 8% for high credit tenant, long term, no escalator**
- \* **Highest are 10-11% for smaller market, non credit tenant, older facility**
- \* **Appear to be stable**

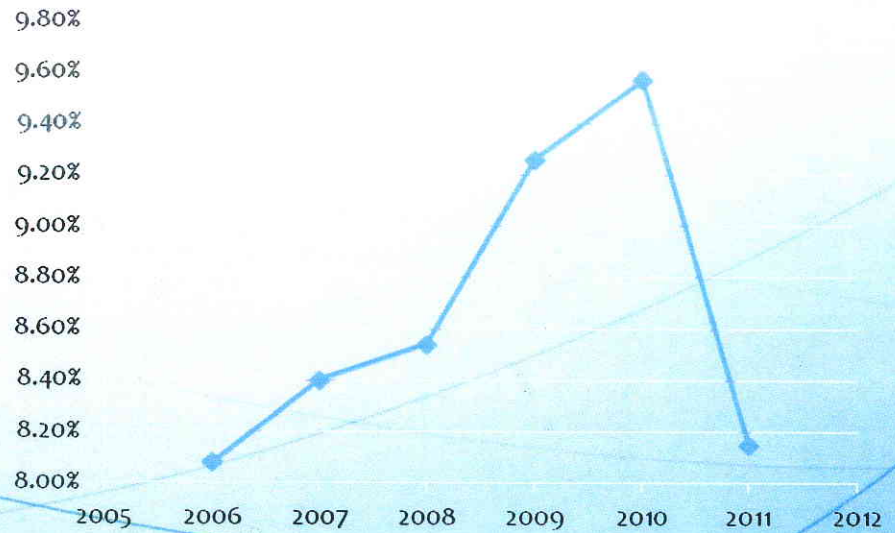
# United States

## Industrial Price and Cap Rate Trends



Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

# Wisconsin





# The Albatross of Wisconsin

- \* General Motors, Janesville
- \* Shuttered in February 2009
- \* Loss of 2500 jobs plus local multiplier impact of another 1500 jobs
- \* Average hourly rate of \$28 plus full benefits plus major change in demographics (hopefully temporary)
- \* Nearly 4 million square feet, 50% constructed between 1940-69
- \* Multiple stories and roof issues
- \* Plus 245,000 square feet of ancillary buildings
- \* 4000 capacity parking lot
- \* 247 acre site
- \* Merger of 3 major rail lines servicing Midwest and Nation with all indoor rail docks
- \* 120,000 volt substation with 12,460 volt service with 33 megawatts
- \* Fully sprinkled
- \* Plant on "hold", not for sale, until at least late 2012, likely affected by union contracts still in place
- \* Annual cost of ownership, likely in excess of \$1.2 million or \$.30 SF
- \* Likely contamination





# Current Industrial Valuation Factors

- \* Market conditions relatively stable since 2009. Some markets still weak but generally stable
- \* Small rural markets still have demand issues and due to major cost/value disconnect, have little chance of expansion
- \* Locations near major transportation/truck routes and rail lines important
- \* Land coverage for properties not allowing for footprint expansions have functional issues
- \* Buildings over 35 years in age tend to be very static in value
- \* Ceiling height clearance of over 30 feet has lesser demand
- \* Office ratios of over 25% excessive unless footprints can be expanded
- \* Expansion costs nearly always excess of recoverable value, affecting equity position of owner



# 2012 Industrial Sector Projections

- \* Continued steady absorption of space into the market but will not be enough to create substantial new construction or spec. space
- \* Most viable space will be absorbed
- \* Slow decision process to rent or purchase, even slow to construct or expand footprint, due to political environment and fragile economy
- \* Most expansions will be M&E and adding shifts, not expansion of footprints
- \* Slight increase in rental rates but still concessions. Escalators unlikely
- \* Stabilized cap. rates
- \* Little new construction due to major disconnect between cost and value
- \* Cost new not commensurate with market returns or rental rates
- \* No new spec space due to financing inavailability
- \* Continued 28 straight months of manufacturing growth but slowing